

## **VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM**

Meeting of the Board of Trustees

April 19, 2004

### **Members present:**

WARREN WHITNEY, Chairperson, VSEA member (term expiring September, 2004)  
ROBERT HOOPER, VSEA member (term expiring September 2004)  
CATHERINE SIMPSON, VSEA Alternate member (term expiring September, 2005)  
JEB SPAULDING, Vice-Chairperson, VT State Treasurer  
DICK JOHANNESSEN, Governor's Delegate  
DAVID HERLIHY, representing CINDY LAWARE, Commissioner of Personnel  
GORDON MACARTHUR, Retired Vermont State Employees' Association – **via conference call**

### **Members absent:**

WILLIAM HARKNESS, VSEA member (term expiring September 2005)  
ROB HOFMANN, Commissioner of Finance & Administration

### **Also attending:**

Cynthia Webster, Director of Retirement Operations  
Steve Charlton, Jennifer Heilig, Rob Fishman, New England Pension Consultants  
Elizabeth Pearce, Deputy State Treasurer  
William Griffin, Chief Assistant Attorney General  
Dr. Joseph Blass – **via conference call**

The Chairperson, Warren Whitney, called the meeting to order at 9:40 a.m. on Monday, April 19, 2004 in the Treasurer's Conference Room #1 at 133 State Street, Montpelier, VT.

### **ITEM 1:      Approval of minutes for April 8, 2004**

**On a motion by Mr. Hooper seconded by Mr. Johannesen, the Board unanimously voted to approve the minutes of April 8, 2004, as submitted.**

### **ITEM 2:      Discuss/Act on Consultant Recommendations for 457/401(a) plan structure and Investment Policy**

The Board reviewed and discussed the *Review of Investment Options* book presented by the NEPC consultants.

Mr. Hooper asked whether demographics of the workforce were considered when making the recommendations, i.e. wages, age, etc. vs. member participation. NEPC will attempt to obtain specific demographic information.

Mr. Charlton and Mr. Fishman advised that the most widely used options, for this type of plan, are age appropriate life-cycle funds, which are considered mini DB plans.

Dr. Blass shared his opinion that the plan would be improved if:

- Participant statements were revised and improved,
- An option for Treasuries were added to the options line-up,
- On going and any transition education is very critical, and expensive,
- Pre-qualified options should be based on 60/40, 50/50, 40/60 type splits, rather than age.

The consultant's recommended a restructure to a three-tier plan consisting of:

**Tier 1:** Pre-diversified options, which includes core and non-core (international emerging markets, mid-cap equities, real estate, high yield bonds, convertible bonds, global international bonds) components.

**Tier 2:** Core options, which consist of small-cap equity, international equity, domestic large-cap equity, core bonds, and stable value.

**Tier 3:** Self-Directed Brokerage/Mutual Fund Window option, which would provide a nearly unlimited choice of funds, with the exception of any plan sponsor tax related options.

The Board discussed the DRAFT Investment Policy, section VII (Evaluation & Review), and debated whether adoption of a formal policy should occur prior to changes in plan options or structure. Mr. Griffin advised the Board that their fiduciary responsibility is to act in the best interest of the participants, based on the information available.

Mr. Whitney confirmed the TPA, Great-West Life, made an identical recommendation in their Q3/03 report to eliminate specific funds from the slate currently available, due to long-standing poor performance. The consultant's recommendation regarding the same funds contained organizational concerns in addition to performance.

The consultants recommended that any changes to the 457 Plan structure and/or fund options, be implemented at the same time. They further recommended the TPA be contacted and advised to begin planning a communication campaign, which could take months to plan and print materials. At the same time, the consultant recommended the Board authorize initiating a search for replacement fund managers.

Mr. Whitney reviewed the consultant's recommendation noting that **Tier 1** already exists in the plan and would be expanded to increase the current three pre-packaged, or lifestyle options, to five or six. **Tier 2** already exists in the plan; however, fund options would be consolidated and/or moved to a core line-up. **Tier 3** would be a new addition to the plan and provide the alternative for participants who want the ability to actively manage their own accounts.

Mr. MacArthur expressed his concern that it would be premature to make changes in the plan without replacement fund recommendations from the consultant, first.

**On a motion by Mr. Hooper seconded by Ms. Simpson, the Board unanimously voted to adopt a policy to change the existing plan structure from the existing two-tier plan to a three-tier plan.**

NEPC will begin the replacement fund search process and communicate the Board's action to the TPA, Great-West Life. NEPC will also return to present their replacement manager recommendations to the Board, at a later date.

**On a motion by Mr. Spaulding seconded by Mr. Johannesen, the Board unanimously voted to establish a sub-committee to create an Investment Policy, for the Board's final approval**

Mr. Whitney asked that interested members contact him.

**On a motion by Mr. Hooper seconded by Mr. Johannesen, the Board unanimously voted to establish a sub-committee to work with NEPC and GWL in development of the options for Tier 2.**

Mr. Whitney asked that interested members contact him.

The consultant will be preparing the fee structure analysis for both the 457 and 401(a) plans for presentation to the Board at a later date.

**ITEM 3: Any other business to come before the Board**

None

**On a motion by Mr. Johannesen seconded by Ms. Simpson, the Board unanimously voted to adjourn at 1:10 p.m.**

Respectfully submitted,

Cynthia L. Webster  
Executive Secretary to the Board

## GOALS

The Board established the following list of goals to be addressed in the future:

- Form a *Policy Development* sub-committee

## TO DO's

<u>Who</u>	<u>What</u>	<u>When</u>	<u>Done</u>
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**\*\* = for possible legislative changes**

CLW	Work w/DOP regarding old LOA's (10/9 #4)	ASAP	
CLW	Obtain AG's opinion re: old LOA's (10/9 #4)	ASAP	
CLW	Prepare travel report (10/9 #12)	11/20/03	
CLW	Advise BenefitsCorp of newsletter info request (10/29 #2)	ASAP	
Dave M	Obtain legal opinion re: real estate assets (11/21 #7)	12/11/03	
Staff	Prepare a comprehensive review of Disability Retirement Process and components (3/11 #3)	5/13/04	
Jeb	Prepare DRAFT resolution (3/18 #3)	TBD	
CLW	Write letter to Mr. Phillips (4/8 #3)	ASAP	
Beth	Contact GWRS re address on cks (4/8 #3)	ASAP	
Sub-Com	Develop 457 Investment Policy (4/19 #2)	ASAP	
Sub-Com	Work with TPA & NEPC re plan (4/19 #2)		